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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*USSR: First Hard Currency Payments Surplus  
in a Decade*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
July 1968

INTELLIGENCE MEMORANDUM

USSR:  
First Hard Currency Payments Surplus  
in a Decade

Summary

The marked improvement in the Soviet hard currency payments position in 1967 resulted in the first surplus in a decade. Among the contributing factors were a decline of more than \$300 million in imports of wheat from Canada and Argentina, a \$100 million drop in imports from other overseas hard currency countries, and a general increase in exports. The need for extensive short-term borrowing in 1966 to avoid selling gold was thus obviated in 1967, and the USSR was able to increase its reserves of gold by about \$150 million to a level of almost \$1.3 billion.

The outlook for 1968 is unclear. It is possible that the USSR will again finish the year with a surplus but there is a greater likelihood of some deterioration in the Soviet hard currency payments position. With \$250 million to \$300 million in wheat still scheduled to be imported from Canada during the 1968/69 crop year, such imports may rise substantially above the reduced 1967 level. Moreover, imports of machinery and equipment probably will increase as deliveries take place on major contracts signed in the past two years. The cost of the additional imports of machinery and equipment, however, will not be offset by medium-term and long-term credit because of increasing repayments on earlier credits.

Note: This memorandum was produced solely by CIA.  
It was prepared by the Office of Economic Research.

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Hard Currency Trade

1. The USSR generated a surplus of about \$90 million in its hard currency commodity trade in 1967 (see Table 1). This trade surplus, the first in a decade, resulted from a decline in imports as well as an increase in exports. The \$150 million drop in imports, the first such decline in a number of years, coupled with a rise of more than \$200 million in exports, resulted in a modest 2-percent rise in total hard currency trade.

Table 1

Soviet Hard Currency Trade  
1959-67

Million US \$				
<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Turnover</u>	<u>Balance</u>
1959	566	591	1,157	-25
1960	744	1,017	1,761	-273
1961	866	1,060	1,926	-194
1962	917	1,181	2,098	-264
1963	960	1,278	2,238	-318
1964	1,011	1,545	2,556	-534
1965	1,326	1,544	2,870	-218
1966	1,482	1,746	3,228	-264
1967	1,691	1,600	3,291	+91

2. A major factor contributing to the favorable hard currency position in 1967 was the decline in imports of wheat -- chiefly from Canada and Argentina -- from approximately \$500 million in 1966 to about \$150 million in 1967. In addition, imports of natural rubber from Southeast Asia fell in value by about \$50 million. In all, there was a drop of approximately \$400 million in imports from overseas hard currency countries -- Canada, Argentina, Malaya, Japan, and others (see Table 2) -- while the USSR increased its exports to overseas countries, Japan in particular, by approximately \$150 million. This favorable swing in Soviet hard currency trade of about \$550 million was only partly offset by a reduction in

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the Soviet surplus with Western Europe of some \$200 million. The substantial rise in imports from Western Europe reflected, among other things, an increase in imports of machinery and equipment of about \$100 million and of manufactured consumer goods. Oil evidently accounted for most of the increase in exports to Western Europe.

Table 2

Distribution of Soviet Hard Currency Trade  
with Western Europe and Overseas Countries  
1966-67

Million US \$				
<u>Geographic Area</u>	<u>Exports</u>	<u>Imports</u>	<u>Turnover</u>	<u>Balance</u>
1966				
Western Europe	1,094	755	1,849	+339
Overseas areas	388	991	1,379	-603
<i>Total</i>	<i>1,482</i>	<i>1,746</i>	<i>3,228</i>	<i>-264</i>
1967				
Western Europe	1,163	1,015	2,178	+148
Overseas areas	528	585	1,113	-57
<i>Total</i>	<i>1,691</i>	<i>1,600</i>	<i>3,291</i>	<i>+91</i>

Payments Developments

3. The Soviet short-term position showed a marked improvement beginning in mid-1967 and continuing throughout the year. This was in marked contrast to 1966, when the USSR borrowed extensively on the short term to finance its deficits and to avoid selling gold. The Soviet medium-term and long-term position, however, evidently changed little in 1967; the Soviet net credit position -- new drawings of about \$275 million less repayments and interest of roughly \$175 million -- was on the order of plus \$100 million, or about the same as in 1966. These credits help to finance Soviet imports of machinery and equipment, which increased from \$560 million in 1966 to about \$650 million in 1967.

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4. Other major elements in the Soviet balance of payments also showed improvement in 1967. Hard currency payments for freight and insurance declined sharply, the net deficit falling from about \$50 million in 1966 to approximately \$20 million in 1967. Hard currency receipts from tourism rose in 1967, perhaps amounting to about \$50 million. Other elements in the Soviet hard currency balance were roughly offsetting, so that the Soviet payments position as a whole was even more favorable than for trade alone. The strengthened payments position obviated the necessity for the USSR to sell gold, although it is doubtful whether the USSR would have sold much gold even had it sustained a payments deficit. Estimated sales of \$5 million\* in 1967 were the smallest of any year since the USSR began selling gold in the postwar period. The USSR added about \$150 million to its gold reserves, bringing them to a level of almost \$1.3 billion by the end of 1967.

#### Outlook for 1968

5. The sharp improvement in the Soviet hard currency payments position probably will not be repeated in 1968. The USSR is still obligated to import \$250 million to \$300 million in wheat from Canada during the 1968/69 crop year. This is in addition to the \$110 million in wheat imported during the first half of 1968 -- almost as much as was bought during all of 1967. Moreover, there will almost surely be a rise in imports of machinery and equipment as deliveries are made on a number of large plant contracts signed in earlier years. Some shipments for the Soviet Fiat plant will also begin in late 1968. Data on Soviet trade with Western Europe in early 1968 indicate that imports will rise well above the 1967 level.

6. On the export side, it is doubtful whether the USSR can sustain the 13-percent growth rate achieved in the past two years. The rate of growth in exports of oil -- the major Soviet foreign exchange earner -- to Western Europe will be somewhat less than the 18-percent growth registered in 1967. The outlook for other major Soviet export commodities is unclear,

\* This estimate excludes small sales of gold coin and the \$10 million gold loan to Hungary.

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but if 1967 trends are indicative, prospects are not bright: traditional exports such as lumber, cotton, and nonferrous metals increased little, if at all, in 1967. Preliminary 1968 data, in fact, indicate a continuation of these trends.

7. No significant change is expected in other elements of the balance of payments. The USSR will continue to draw on medium-term and long-term credits as in the past; on a net basis, such drawings may even be somewhat lower than in 1967 in spite of increased imports of machinery and equipment. Expenditures for transportation will again be reduced, but the reduction will not be as great as in 1967. The remaining elements are not expected to register any major change. There will probably be some overall deterioration in the Soviet payments position, although hard currency payments and receipts will be roughly in balance. No gold sales are expected, and so the USSR will be able to add another \$150 million to its reserves, bringing them to a level of about \$1.4 billion.

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